

Audit Report



DOD PAYROLL WITHHOLDING DATA FOR FY 1999

Report No. D-2000-156

June 29, 2000

Office of the Inspector General
Department of Defense

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Acronyms

| | |
|-------|--|
| CSRS | Civil Service Retirement System |
| DCPS | Defense Civilian Payroll System |
| DFAS | Defense Finance and Accounting Service |
| FEGLI | Federal Employees Group Life Insurance |
| FERS | Federal Employees Retirement System |
| OPM | Office of Personnel Management |
| RITS | Retirement Insurance and Transfer System |



INSPECTOR GENERAL
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June 29, 2000

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
NAVAL INSPECTOR GENERAL
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on DoD Payroll Withholding Data for FY 1999
(Report No. D-2000-156)

We are providing this report for review and comment. We considered management comments on a draft of this report when preparing the final report. We conducted the audit in response to requirements of the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We request additional comments from the Army on Recommendation A.1. through A.5., from the Navy on Recommendations A.1., A.2., A.4. and A.5. and from the Air Force on Recommendations A.1. through A.5. by August 28, 2000.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David F. Vincent at (703) 604-9110 (DSN 664-9110) (dvincent@dodig.osd.mil) or Mr. Thomas J. Winter at (703) 604-9134 (DSN 664-9134) (twinter@dodig.osd.mil). See Appendix C for the report distribution. The audit team members are listed inside the back cover.

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Office of the Inspector General, DoD

Report No. D-2000-156

June 29, 2000

(Project No. D1999FH-0072.001)

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DoD Payroll Withholding Data for FY 1999

Executive Summary

Introduction. We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. This audit supports our audit of the FY 1999 DoD Agency-wide financial statements. Office of Management and Budget Bulletin No. 98-08, August 24, 1998, requires us to review the retirement, health, and life insurance withholdings and agency contributions during the course of conducting audits and specifies the procedures to apply. The DoD payroll offices remitted more than \$2 billion to the Office of Personnel Management for the year in retirement and health and life insurance withholdings and agency contributions for more than 800,000 DoD civilian employees with a total annual payroll of \$37.6 billion.

Objectives. Our objective was to determine whether the retirement, health, and life insurance withholdings and employee data that DoD submitted were accurate and supported. We also assessed management controls and compliance with laws, regulations, and procedures relative to payroll withholding data that DoD submitted.

Results. The Defense Finance and Accounting Service and DoD personnel offices did not have adequate controls to support the accuracy of the payroll amounts withheld and remitted to the Office of Personnel Management.

- DoD offices were not retaining all personnel files and documents, nor did they have a system to ensure completion of personnel documents. Our tests of the personnel records of 279 employees identified 24 employees (8.60 percent) with errors in their gross pay or payroll withholding (see Appendix B). Because some employee files sampled had more than one error, the errors numbered 35 for those 24 individuals. We could not statistically project the results to the 800,000 DoD civilians. As a result, DoD personnel documentation did not always support amounts that DFAS paid and withheld (finding A).
- The Defense Finance and Accounting Service did not promptly resolve edit check discrepancies. Payroll personnel did not reconcile three payroll files that failed edit checks. As a result, OPM did not have complete assurance

of the accuracy of the DoD payroll withholding data and the reliability, accuracy, and verifiability of the amounts transferred (finding B).

Recommendations in this report, if implemented, will improve Military Department civilian personnel offices' management controls and support for amounts paid and withheld by the Defense Finance and Accounting Service. See Appendix A for details of the management control program.

Summary of Recommendations. We recommend establishment of procedures that ensure timely and accurate payroll election records and prompt transmission of personnel payroll data; correction of the errors discussed in this report; establishing a review system for employee payroll elections; and establishing performance measures for assessing the accuracy of payroll withholding data. We recommend that the Director, Defense Finance and Accounting Service, develop software capable of correctly extracting electronic files that support the withholding amounts reported and implement management control procedures that ensure clear identification and communication of responsibilities.

Management Comments. The Office of the Assistant Secretary of the Army (Manpower and Reserve Affairs) nonconcurred with establishing controls for accurate payroll election records and prompt data transmission, concurred with correcting the reported errors, and nonconcurred with establishing a review system for employee payroll elections, and did commit to establishing performance metrics. The Office of the Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred with establishing controls for accurate payroll election records and prompt data transmission, concurred with correcting the reported errors, and concurred with establishing a review system for employee payroll elections. The Director of Finance, Defense Finance and Accounting Service, concurred that his office would develop software capable of extracting details and also clearly identify and communicate transferred responsibilities to affected personnel. The Air Force did not provide comments. A discussion of management comments is in the Findings section of the report, and the complete text is in the Management Comments section.

Audit Response. The majority of comments from the Army were not responsive. The majority of comments from the Navy lacked detail on corrective actions. We are concerned that 8.6 percent of the payroll records examined were in error and other than fixing the errors identified, the comments were not specific on how the Services planned to identify similar errors in other pay records and establish metrics to measure the accuracy of payroll withholding for DoD civilians. The comments from the Director, Defense Finance and Accounting Service, were responsive. We considered all of their comments and included their comments in this report. We request that the Army, the Navy, and the Air Force provide additional comments on the recommendations by August 28, 2000.

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Background

Reporting Requirements. Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, requires Federal organizations to prepare annual audited financial statements. The Chief Financial Officers Act also requires the Inspectors General to audit all financial statements prepared under its guidelines. The Chief Financial Officers Act, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, requires DoD and other Government agencies to prepare agency-wide financial statements since FY 1996.

Audits of Federal Financial Statements. Office of Management and Budget Bulletin No. 98-08, "Audits of Federal Financial Statements," August 24, 1998, establishes responsibilities and standards for audits of Federal financial statements. Appendix H of the Bulletin outlines agreed-upon procedures to be applied separately for each agency payroll office that services 30,000 or more employees per year. The period subject to the agreed-upon procedures is for the 12 months ending September 30 of each year. On December 6, 1999, we submitted a separate memorandum on the application of the agreed-upon procedures to the Inspector General of the Office of Personnel Management (OPM).

Payroll Responsibilities. The Defense Finance and Accounting Service (DFAS) provides payroll services to DoD, including calculation of gross pay, withholding, and reporting the amounts withheld to OPM. The DFAS reports more than \$2 billion in withholding to OPM annually for more than 800,000 DoD civilian employees included in the total annual civilian payroll of about \$37.6 billion. DoD civilian personnel offices and regional centers are responsible for retaining documentation supporting all DoD civilian personnel withholding elections and gross pay amounts.

Objectives

The overall audit objective was to determine whether the retirement, health benefits, and life insurance withholdings and employee data that DoD submitted to OPM were accurate and supported. Appendix H of Office of Management and Budget Bulletin No. 98-08 specifies the procedures that we applied to meet the objective. We also assessed management controls and compliance with laws, regulations, and procedures relative to payroll withholding data that DoD submitted. Appendix A includes a discussion of scope, methodology, the management control program, and prior audit coverage.

A. DoD Payroll Personnel Records

Of the 279 personnel records sampled at DoD civilian personnel offices, 24 personnel records, or 8.60 percent*, had one or more deficiencies in their gross pay or withholding for retirement, health benefits, and life insurance. DoD employee personnel records had errors because DoD personnel offices did not have an effective system to review and correct civilian employee personnel documents and civilian payroll deductions on a timely basis. As a result, DoD personnel documentation did not support amounts that DFAS paid and withheld.

Documentation

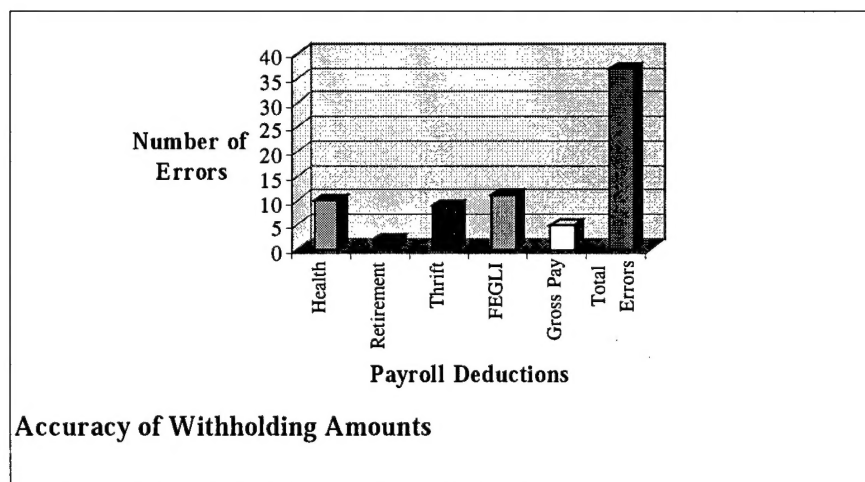
Civilian Personnel Office Records. Documentation in civilian personnel office records supporting the amounts deducted for retirement, health benefits, and life insurance provides assurance that DoD civilian employees receive the benefits that they have elected and that the amounts withheld as payment for the benefits are authorized and accurate. In the past, DoD civilian employees made the elections almost exclusively on paper forms, and DoD personnel offices had to retain the forms as evidence of the employees' elections for particular benefits and authorization for pay and withholding. By December 31, 2000, DoD civilian employees should be able to make the elections electronically, and DoD organizations plan to retain electronic records to document those elections. For the purposes of our audit, we defined an error as an inconsistency or discrepancy between personnel file documentation and payroll withholding data.

Requirements for Audit Trails. DoD Regulation 7000.14-R, "Financial Management Regulation," January 1995, states that accounting systems must have audit trails that allow transactions to be traced from initiation through processing to final reports. A fundamental requirement of a good audit trail is that it adequately supports the transactions and payroll deductions forwarded to OPM for employee benefits and the reverse from final reports to the initiating transaction document. The audit trail provides management with assurance that support for any transaction can be easily identified for resolution or analysis. All transactions and deductions should be supported with pertinent documents and source records.

*Percentages in this report are based on the sample only, and do not generalize to the universe.

Supporting Documentation

Personnel offices and regional centers lacked adequate supporting documentation for payroll deductions. Out of our sample of 279 employee personnel records, 24 records (8.60 percent) had one or more deficiencies in their gross pay or withholding. Of the 279 records sampled, 16 records (5.73 percent) had one or more deficiencies because of inadequate documentation, and another 8 items (2.87 percent) had calculations inconsistent with the document support because personnel offices did not promptly transmit personnel payroll data to DFAS. Because some samples had more than one error, the errors totaled 35. The lack of supporting documentation caused errors in the payroll categories of gross pay, retirement, Thrift Savings Plan (Thrift), health benefits, and life insurance withholding amounts (FEGLI). The following figure identifies the number of errors by payroll deduction.



Accuracy of Withholding Amounts

Gross Pay. Eight payroll data files traced to personnel file documentation for amounts paid resulted in five instances in which the gross pay was not supported. The five instances in which the gross pay was not supported included one missing file (\$554 in one pay period), two missing documents (\$1,213 and \$1,538 per pay period), and two calculation errors (\$3 overpaid and \$48 underpaid per pay period). For example, one civilian employee was underpaid by \$48 per pay period in gross pay for four pay periods because his personnel office did not report his changed rate of pay for more than 2 months. The effect of the errors could cause overpayments that could lead to a future liability for civilian personnel or to a civilian employee not receiving the correct amount of net pay.

Retirement. Our sample identified that 120 of 279 participants were in the Civil Service Retirement System (CSRS), 148 participants were in the Federal Employees Retirement System (FERS), and 11 participants were not eligible or not in a plan for other reasons. Specifically, one retirement

withholding (contribution) error for CSRS was caused by a calculation error resulting from a failure to change the pay rate (\$5 underwithheld per pay period). We also identified eight Thrift Savings Plan errors because of two incomplete elections (\$104 and \$72 per pay period overwithheld), two missing forms (\$112 and \$183 per pay period overwithheld), two outdated forms (\$100 and \$74 per pay period overwithheld), one calculation error (\$3 per pay period underwithheld), and one missing personnel file. Because Thrift Savings Plan election forms were not consistently completed and on file, DoD was not assured of the accuracy of amounts withheld for DoD civilian employees and that the elections of DoD civilian employees were actually reflected in their payroll and their thrift savings plans. Because of potential errors that may repeat over time, and considering compound interest that could be earned, a single error could multiply to a significant amount over time.

Health Benefits. We compared the amounts withheld in the payroll data files with the amounts that should have been withheld according to the personnel file documentation. We identified 10 health benefits withholding errors. The errors were caused by one missing file, four missing documents (\$11 underwithheld and \$55, \$62, and \$34 overwithheld per pay period), two withholdings inconsistent with documented elections (\$11 and \$29 overwithheld per pay period), and three health plan codes on payroll data files inconsistent with documented elections (\$67 and \$6 overwithheld and \$10 underwithheld per pay period). For example, because DoD withheld pay inconsistent with documented health elections, one employee had \$29 withheld for health insurance even though he canceled his enrollment in the Federal Employees Health Benefits Program on December 1, 1997. Health benefits selected by employees must be accurate to ensure that withholdings are authorized.

Life Insurance. We recalculated the amount that should have been withheld for life insurance coverage based on personnel file documentation and the rates for life insurance stated in the Federal Employees Group Life Insurance handbook (RI76-21). Our analysis reflected 11 life insurance withholding errors. The withholding errors were caused by one missing file, one outdated form (\$4 underwithheld per pay period), two withholdings inconsistent with documented elections (\$4 and \$8 overwithheld per pay period), and seven calculation errors (ranging from \$0.66 underwithheld to \$44 overwithheld per pay period). For example, one employee waived life insurance coverage on April 13, 1998, but \$4.13 was withheld from his pay for life insurance. Because life insurance election forms were not consistently entered into the personnel and payroll system, DoD was not assured of the accuracy of amounts withheld for DoD civilian employees and that the elections of DoD civilian employees were actually reflected in their payroll. Employees could choose a high rate of life insurance coverage but would not have adequate amounts of withholding taken out. The inadequate withholding could create a situation in which the employee could be billed for the coverage at a later date for an amount significantly greater than the biweekly withholding.

Measures of Performance and Validation

Personnel File Documentation. DoD needs to improve the accuracy of its payroll withholding data because personnel file documents supporting payroll deductions were missing or not current. We identified errors in personnel file documentary support and resulting calculations in gross pay, retirement including the Thrift Savings Plan, health benefits, and life insurance. We did not identify any measures of acceptable performance, which must be in place to have a system of review and feedback on performance of duties essential to operations and report accuracy. We also identified errors in payroll reports as discussed in finding B. The Military Departments did not have adequate measures for assessing the support for gross pay and payroll withholding from personnel file records and accounting records. However, no performance measures or feedback mechanisms were in place to alert management to those problems.

Validating Payroll Withholding. Personnel documentation supporting payroll deductions did not agree or was missing when compared with the DFAS payroll withholding, and we could not identify whether personnel had validated the supporting documentation. Validating the accuracy of payroll withholding is important so that organizations and personnel responsible for calculating, withholding, and reporting DoD payroll can receive feedback indicating their success or need for improvement. The errors that we identified in personnel file documentary support and resulting calculations of gross pay; retirement, including the Thrift Savings Plan; health benefits; and life insurance could have been detected and corrected before our audit if the Military Departments had established a program to validate payroll withholding accuracy and support and provide feedback to organizations and personnel responsible for retaining records of withholding elections and personnel actions.

Conclusion

Deficiencies existed in the employee records documenting gross pay and withholding for retirement, health benefits, and life insurance. DoD had deficiencies in employee records because DoD personnel offices did not have an effective system to review and correct civilian employee personnel documents and civilian payroll deductions on a timely basis. In addition, DoD needed improved management controls for DoD personnel offices and regional centers to retain personnel files and documents. Also, DoD needed to establish procedures for the accurate completion of personnel documents and the prompt transmission of personnel payroll data to DFAS. Until the deficiencies are corrected, documentation will not support amounts paid and withheld by DFAS, and DoD will not be assured that it acts upon the withholding elections of its civilian employees and accurately withholds proper amounts from civilian pay.

Recommendations, Management Comments, and Audit Response

Revised Recommendations. As a result of management comments, we eliminated our reference to the Director, Defense Civilian Personnel Management Service, in Recommendations A.1. through A.5. The Director, Defense Civilian Personnel Management Service, stated that the issues raised in this report concern matters under the purview of the Military Departments and Defense agencies.

We made no recommendations to Defense agencies individually due to their minimal role in the overall sample. During the audit, the Defense Civilian Personnel Management Service indicated they would coordinate audit recommendations with the Defense agencies. Based on their written response, this would not occur and we removed them from the recommendation. During the FY 2000 audit, we will make recommendations to the Defense agencies, if appropriate.

A. We recommend that the Assistant Secretary of the Army (Manpower and Reserve Affairs), the Assistant Secretary of the Navy (Manpower and Reserve Affairs), and the Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and Environment):

- 1. Establish controls for DoD personnel offices and regional centers to retain personnel files and documents.**

Army Comments. The Assistant Secretary of the Army (Manpower and Reserve Affairs) (Army Personnel) nonconcurrent and stated that guidelines and controls for the Army are already in place. The civilian personnel operations centers are tasked with maintaining employees' official personnel files in accordance with the Guide to Personnel Recording, established by OPM. The guide addresses electronic as well as hardcopy official personnel files. The Army established additional controls and published them in the task lists, business process maps, and standard operating procedures. The Army cited a web site that identified controls that the Army had in place.

Audit Response. The comments from Army Personnel were partially responsive. We acknowledge that the Army already had some controls for DoD personnel offices and regional centers to retain personnel files and documents. However, the results of the audit indicate that the guidelines already in place were not being implemented or were not adequate because the Army was not able to readily support the amount of payroll withholding reported to OPM for sampled civilian employees. We made three separate data calls from May through September 1999 requesting support for the Army civilian employee pay entitlements and for the amounts deducted for retirement, health benefits, life insurance, and thrift savings. After three data calls over a 5 month period, the Army was not able to provide the documents requested. The response of the Army is based on a fourth data call covering a 10 month period since the documentation was first requested. The Army needs to perform reviews of its support of pay entitlement and payroll elections to ensure that entitlements and elections are accurate. We reviewed the web site that the Army suggested, and

concluded the business process maps do not address the recommendation because the business process maps are only procedures instead of controls to ensure the procedures are completed. We ask Army Personnel to reconsider its position and to provide additional comments in response to the final report.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred and stated that as the Navy implements Human Resources Regionalization and Modernization, the Navy will ensure that its new systems have adequate safeguards to ensure that official personnel records are consistent with payroll withholding.

Audit Response. The comments from the Assistant Secretary of the Navy (Manpower and Reserve Affairs) did not address the recommendation. The results of the audit indicate that the guidelines already in place were not being implemented or needed improvement because the Navy was not able to readily support the amount of payroll withholding reported to OPM from its official personnel records. The Navy needs to specify how the new systems will have adequate safeguards to ensure that official personnel records are authorized and should be able to substantiate payroll withholdings. We request further comments from the Navy on this final report.

2. Establish procedures for the accurate completion of personnel documents and the prompt transmission of personnel payroll data to the Defense Finance and Accounting Service.

Army Comments. Army Personnel nonconcurred and stated that procedures are already in place for processing personnel actions and transmitting data to payroll. Some of the untimely transmissions cited in the draft report were beyond the administrative control of the personnel offices. However, quality control reviews are necessary to ensure that employees and managers have accurately completed the forms necessary to effect personnel actions. Procedures for completion of the particular personnel documents are provided in the Federal Employees Health Benefits Handbook for Enrollees and Employing Offices. Army Personnel cited three web sites that provide guidance on controls and described training that occurred in the last year.

Audit Response. The comments from Army Personnel were not responsive. If the Army had good processes in place, we would not have found the errors we did. The Army Personnel identified three web sites regarding procedures for completing personnel forms, but the web sites do not address the controls to ensure that payroll withholding amounts deducted by DFAS are supported by documents or authorizations maintained by personnel. For example, a critical internal control provides for a separation of duties between payroll and personnel to ensure two separate sources of support for payroll deductions. The two sources are critical so that if one individual intentionally or unintentionally inputs incorrect data, the second source will identify and correct the discrepancy. Additionally, Army Personnel responded in Recommendation 4 that it has 300 System Change Requests in process. For the requests to be effective, the Army needs to provide completion dates and testing schedules for the changes rather than merely submitting the request. We request that Army Personnel reconsider our recommendation to ensure that personnel data accurately support DFAS payroll amounts on a timely basis.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred and stated that as the Navy implements Human Resources Regionalization and Modernization, the Navy will ensure that its new systems have adequate safeguards to ensure that employees are paid correctly.

Audit Response. The comments from the Assistant Secretary of the Navy (Manpower and Reserve Affairs) do not address the recommendation. Navy needs to specify the safeguards that it will include in any new systems to ensure that employees are paid correctly, and how the new systems will include procedures for the accurate completion of personnel documents and the prompt transmission of personnel payroll data to DFAS. We request further comments from the Navy on this final report.

3. Correct the errors in personnel files discussed in this report (see Appendix B for specific errors identified).

Army Comments. Army Personnel concurred and provided an enclosure to the comments (not included in this report because of privacy considerations) with the results of the Army review of the errors found in the personnel files. Army Personnel stated that a number of errors resulted from an Army personnel specialist not reviewing enough information in an employee's records to verify current withholdings. Army Personnel stated that in essence, the errors are not the result of poor personnel record keeping or a lack of documentation but an error in providing the necessary documentation to the auditors. Two of the three timeliness errors cited are beyond the control of the personnel and payroll communities. For example, one of the errors cited involving gross pay was the result of the President not signing the Wage Grade pay table until December 1998 with an effective date of October 11, 1998. Army Personnel stated that as a result of the Army review of the 12 errors in the support for amounts paid and withheld, only 4 files contained errors attributable to the personnel community. Two of the four errors involve incorrect documentation, but the payroll withholding is correct. One error is attributable to the inability to provide records because of a missing file, so documentation and withholding may or may not be correct. The fourth error involved an unacceptable delay in processing an action, which affected the payroll withholding and the employee's pay.

Audit Response. The Army Personnel comments were partially responsive. However, we requested the data that the Army used to make its determinations in three data calls from May through September 1999. Including the draft report, the Army had four opportunities to provide requested documentation to support the files. Army Personnel acknowledged four incorrect files, including one that they could not locate. We reviewed the documentation provided and consider six items to still be errors and the remaining six to be untimely due to requiring four data calls. Two errors we reported that the Army disputes involve the failure to communicate information about health benefits and life insurance in a timely manner. The Army should review the files that they dispute because we consider the timing differences of as many as 103 days to be errors and not an acceptable administrative delay. Payroll should not be adjusted without proper and timely documentation. We request the Army reconsider its position and provide further comments on this final report.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred and stated that it began the review of the six Department of the Navy cases identified in the audit and will take appropriate corrective action.

4. Establish a system to review and correct civilian employee personnel documents for consistency with payroll deductions.

Army Comments. Army Personnel nonconcurred and stated that all payroll deductions must be based on the hardcopy or electronic data that flow from the personnel offices to the Defense Civilian Payroll System (DCPS). Personnel and payroll data are reconciled three times a year in February, June, and October. Payroll sends a copy of the data that flowed through DCPS, and the records are matched with the data elements in the Defense Civilian Personnel Data System. The system does not contain payroll deductions such as taxes, health insurance, thrift savings, garnishments, and life insurance. Payroll data, in the form of a personnel/pay application data file, are sent to personnel to be uploaded into the Regional Application.

Army Personnel also stated that DCPS has more than 300 system change requests that are waiting to be implemented or processed, and 40 of the system change requests deal specifically with the flow of personnel data. The personnel and payroll staffs must use "workarounds" to get DCPS to accept actions. Within the last year, the DCPS implemented some system change requests that deal specifically with thrift savings and health actions.

Audit Response. The comments from Army Personnel were partially responsive with the intent of the recommendation. The audit noted inconsistency between payroll elections and payroll withholding based on the elections, particularly in the areas of health insurance, life insurance, and thrift savings. The intent of the recommendation was for the Army to perform reviews to correct inconsistencies detected between payroll elections and withholding. As described by the Army Personnel comments to Recommendation 5, it is already performing reviews through the Civilian Personnel Evaluation Agency and the Unmatched Disbursements Working Group. If the Assistant Secretary of the Army directed the Civilian Personnel Evaluation Agency to include reviews of health benefits, life insurance, the Thrift Savings Plan, and FERS and CSRS retirement withholdings, the Army response would be fully responsive to the intent of the recommendation.

Army Personnel should followup on the system change requests dealing with the flow of personnel data by prioritizing the requests, monitoring the status of the requests, and holding assigned staff accountable for ensuring prompt accomplishment of the request. Better Army management of the system change requests would enable Army personnel specialists to promptly transmit personnel payroll data to DFAS. We request the Army provide additional comments on the recommendation.

Navy Comments. The Assistant Secretary of the Navy (Manpower and Reserve Affairs) concurred and stated that the accountability assessment program will include a process for systematic review of the issue.

Audit Response. The Navy needs to provide additional comments explaining how this assessment program will work, and when it is scheduled for implementation.

5. Develop performance measures for assessing the accuracy and support for gross pay and payroll withholding from personnel file records and accounting records.

Army Comments. Army Personnel concurred and stated that the systems in place to assess the quality of data and to resolve discrepancies in accounting data and payroll interface need focus. Army Personnel agreed that the employees who process personnel and payroll actions need to ensure that the actions are timely and correct. The employees may be from the personnel, resource management, finance, or payroll community.

The Civilian Personnel Evaluation Agency of the Army performs internal audits of personnel data and documentation, personnel record keeping, and personnel data entry. The Civilian Personnel Evaluation Agency conducts data quality checks by matching the data contained in Defense Civilian Personnel Data System with the documents in the official personnel files to ensure that data are accurate and complete. The Unmatched Disbursements Working Group was in place with representatives from Civilian Personnel Financial Management, Budget, and DFAS. The group outlined specific problem areas in the flow of data from the initiation of an action all the way through to the Department of the Treasury.

The Army was in the process of automating and moving benefit services from the civilian personnel advisory centers to the regional Army Benefits Center-Civilian located at Fort Riley, Kansas. New standard operating procedures, business process maps, and task lists are being prepared to guide the processing of health benefits, life insurance, and thrift savings transactions. The majority of the transactions will be electronic. Employees will independently enroll or change their enrollment using a telephone or computer, and the electronic data will automatically flow to legacy and modern personnel systems and DCPS through the payroll interface. The electronic transactions will expedite payroll notification and reduce errors caused by data entry clerks. The transition of workload from continental U.S. Civilian Personnel Advisory Centers to the Army Benefits Center-Civilian will be completed this year. Because of the number of actions occurring each day in the operations centers, the possibility exists that the most current changes or corrections made to an employee's record are available in the Defense Civilian Personnel Data System and regional applications long before a hard copy is filed. With the advent of the call center, providing hard copies of documents to the auditors will not be cost-effective.

Audit Response. Comments from Army Personnel were partially responsive. However, the Army needs to provide additional detail explaining how it plans to establish performance metrics and when they will be implemented.

Other Comments

Defense Civilian Personnel Management Service Comments. The Director, Defense Civilian Personnel Management Service, stated that the issues raised in the draft report concern matters under the purview of the Military Departments and Defense agencies, and therefore the Director cannot respond directly to the report findings and recommendations.

Audit Response. The comments from the Director, Defense Civilian Personnel Management Service, were responsive. We eliminated our reference to the Director, Defense Civilian Personnel Management Service, in the finding and recommendations.

B. Accuracy and Reliability of DoD Payroll Withholding Data

DFAS could not support the amount of DoD payroll withholding reported to OPM, and it did not promptly resolve edit check discrepancies with OPM. DFAS could not support its OPM report because DFAS had a database that could be retroactively adjusted and lacked software to eliminate retroactive adjustments. DFAS did not promptly resolve edit check discrepancies because it did not have standard procedures to identify and communicate responsibility for resolving edit check discrepancies. As a result, OPM did not have complete assurance of the accuracy of the DoD payroll withholding data and the reliability, accuracy, and verifiability of the amounts transferred.

Electronic Files

DFAS maintained and directly extracted data from a database known as its payroll history database. The payroll history database retains data for 26 pay periods after the end of the pay period, but the database is subject to retroactive and other changes. DFAS did not retain a permanent electronic file of the details provided to OPM beyond the 26 pay periods.

Database Transfer and Footing. For this audit, DFAS extracted payroll data files from the payroll history database at Pensacola and sent it to us by an electronic file transfer procedure. We added the 24 payroll data files (8 payroll offices with more than 30,000 employees each for 3 pay periods) with more than \$3.31 billion in total pay (approximately \$1.1 billion per 2-week pay period) and more than 634,000 employees in each payroll period. We also added withholding amounts for life insurance, health insurance, CSRS, and FERS.

Comparison of Database. We traced the employee withholding totals from the extracted payroll data files to the related amounts shown on the Retirement Insurance and Transfer System (RITS) submission. Table 1 reflects differences between the payroll data file totals and the amounts reported to OPM. The amounts withheld for life insurance withholdings, health insurance withholdings, CSRS withholdings, and FERS withholdings exceeded the amounts reported to OPM in the RITS submission data. The total difference, percent difference, and range of differences are shown in Table 1.

Table 1. Payroll Data Files Exceeded RITS Data Submissions

| <u>Type of Withholding</u> | <u>Reported To OPM (millions)</u> | <u>Total of Differences</u> | <u>Percent Difference</u> | <u>Percent Range of Differences</u> |
|----------------------------|-----------------------------------|-----------------------------|---------------------------|-------------------------------------|
| Life | \$ 31.1 | \$ 65,792 | 0.21 | 0.04 to 1.12 |
| Health | 72.8 | 102,612 | 0.14 | 0.01 to 0.39 |
| CSRS | 112.0 | 144,675 | 0.13 | 0.01 to 0.30 |
| FERS | 15.0 | 8,270 | 0.06 | 0.00 to 0.31 |

The differences occurred because DFAS maintained a database that could be retroactively adjusted. Because of the small size of the differences and the fact that DFAS used a database that allows retroactive changes for its payroll records, we do not consider the differences to be material. However, even small discrepancies reduce the reliability, accuracy, and verifiability of sensitive payroll data transmitted to OPM.

DFAS can improve the capability to provide exact data supporting payroll withholding by correctly developing the capability to provide exact data support for the amounts reported to OPM excluding retroactive adjustments and other changes. We discussed alternative electronic methods with DFAS, and DFAS personnel are investigating the possibility of developing an improved extraction program for future required audits.

Reorganization, Responsibility, and Edit Checks

OPM Edit Checks. To ensure the accuracy of the data transmitted by DFAS to OPM, OPM applied certain edit checks. The edit checks are part of the requirements set up for the RITS host-to-host file format and specifications as directed by OPM. Some examples of the edit checks include validity of payroll office number and pay period and withholding summations for life insurance, health benefits, CSRS, and FERS.

Transfer of Edit Check Responsibility. DFAS Cleveland Center submitted three payroll data files with unresolved edit check discrepancies that OPM did not accept. DFAS Headquarters transferred to DFAS Cleveland Center the duty of sending payroll data to OPM for payroll file numbers 97380300 and 97380500 on September 10, 1998, and October 16, 1998, respectively. However, DFAS Cleveland Center personnel were not informed that they had to identify and resolve edit check discrepancies for the payroll data files sent to OPM. In a meeting on September 2, 1999, resulting from our audit inquiries, OPM informed DFAS personnel of the procedures to use to resolve the edit check discrepancies.

Comparison of Deposit System Forms. We compared deposit system forms that OPM and DFAS provided to us for the three payroll periods for all payroll data files in excess of 30,000 employees (3 pay periods times 8 payroll files, or a total of 24 comparisons). OPM was able to initially provide only 21 of the 24 deposit system forms that we requested. OPM was not able to provide 3 of the 24 deposit system forms requested because the payroll data files had not passed edit checks to allow the data files into OPM and DFAS had not corrected the data files. DFAS was not aware that the payroll data files had not passed edit checks, but DFAS took action during the audit so that we could complete the audit procedures.

After we informed DFAS that the reports failed edit checks, DFAS made corrections to the reports and the reports passed edit checks. The following table reflects the dates that the reports were originally submitted, dates when eventually accepted, and the amounts.

Table 2. Payroll File Edit Checks

| <u>Payroll File Number</u> | <u>Pay Period Ended</u> | <u>Date Submitted</u> | <u>Date Accepted</u> | <u>Amount</u> |
|--------------------------------|-----------------------------|---------------------------|--------------------------|---------------|
| 97380300 | 11/21/98 | 11/30/98 | 7/16/99 | \$12,455,537 |
| 97380500 | 11/21/98 | 12/03/98 | 7/16/99 | 69,810,708 |
| 97380500 | 01/30/99 | 02/03/99 | 6/29/99 | 73,978,451 |

DFAS was not aware that the reports had not passed edit checks for more than 7 months. We consider the condition to be a DFAS management control weakness because DFAS was not aware that the payroll files failed edit checks and because of the significant amount of time it took to successfully file corrected payroll data files. Because data are maintained for approximately 26 pay periods, those discrepancies might not have been corrected because the data would be destroyed, so timely corrections are critical. DFAS could prevent that type of management control weakness by implementing standard procedures for resolving edit check discrepancies.

Conclusion

DFAS could not support the amounts that it reported to OPM, and it did not promptly resolve edit check discrepancies. DFAS could not support its OPM report because the DFAS database can be retroactively adjusted and the extraction software incorrectly considered the effects of retroactive adjustments. DFAS did not promptly resolve edit check discrepancies because it did not have standard procedures to identify and communicate the responsibility for resolving edit check

discrepancies. Until the deficiencies discussed in this finding are corrected, DFAS will not be able to support the amounts that it reports to OPM, and management controls will be less certain whenever responsibilities are transferred.

Recommendations, Management Comments, and Audit Response

B. We recommend that the Director, Defense Finance and Accounting Service:

- 1. Develop software capable of extracting exact details in electronic payroll data summarized and transmitted to the Office of Personnel Management for withholding payments.**

Management Comments. The Director for Finance, Defense Finance and Accounting Service, concurred and agreed to take action to define extraction program requirements and have the requirements in place for future audits.

- 2. Develop and implement standard procedures to clearly identify and communicate responsibilities to personnel for transferred responsibilities.**

Management Comments. The Director for Finance, Defense Finance and Accounting Service, concurred and reported that its Cleveland Center had already taken action to communicate responsibilities for processing Retirement and Insurance Transfer System Files.

Appendix A. Audit Process

Scope

We reviewed the data and documentation supporting the \$2 billion in payroll withholding that DFAS reported to OPM during each year for DoD civilian personnel. The total annual payroll for 800,000 DoD civilian employees is \$37.6 billion. We selected for review the payroll files and supporting documentation for the payroll periods that ended November 21, 1998; January 30, 1999; and February 27, 1999, from the computer-processed data in the DFAS payroll history database. The DFAS payroll history database is generally reliable. We also reviewed DoD plans to automate and use electronic media to record DoD civilian personnel payroll withholding elections.

DoD-Wide Corporate-Level Government Performance and Results Act (GPRA) Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures.

FY 2001 DoD Corporate Level Goal 2. Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. (01-DoD-2)

FY 2001 Subordinate Performance Goal 2.5: Improve DoD financial and information management. (01-DoD-2.5)

FY 2001 Performance Measure 2.5.2. Achieve unqualified opinions on financial statements. (01-DoD-2.5.2).

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

Financial Management Objective: Strengthen internal controls.
Goal: Improve compliance with Federal Managers' Financial Integrity Act. (FM-5.3)

General Accounting Office High Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from April through November 1999 in accordance with auditing standards

issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the Office of Personnel Management. Further details are available upon request.

Methodology

We reviewed data and documentation supporting gross pay and payroll withholdings that DFAS reported to OPM. We also reviewed management controls over the reporting process. We met with the Defense Civilian Personnel Management Service to determine the status and goals of the Defense Civilian Personnel Data System. We determined why amounts were paid in a pay period that appear to exceed the salary cap per pay period. We electronically obtained the payroll data files from the payroll history database at Pensacola by a file transfer procedure from DFAS. We independently totaled the 24 payroll data files (the eight payroll offices with more than 30,000 employees each for three pay periods). The data files represent about 634,000 employees for each pay period. We compared the payroll data files with employee personnel forms for 279 randomly selected employees for gross pay, retirement, health insurance, and life insurance. We recalculated the headcount reflected on the Supplemental Semiannual Headcount Report. We obtained the Supplemental Semiannual Headcount Reports for the pay period that ended February 27, 1999, and compared those counts with the payroll data files from DFAS Pensacola for the same period. We recalculated total withholdings and employer contributions. For the three pay periods selected, we compared the total of the total column on the Forms 2812 with the actual amount transferred.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

Scope of Review of Management Control Program. We reviewed the annual statement of assurance by DFAS for FY 1999. We reviewed the report to determine whether it disclosed the lack of software capable of extracting exact details in the electronic payroll data summarized and transmitted to OPM for withholding payments. We also reviewed the report to determine whether it disclosed the lack of standard procedures to ensure that responsibilities are clearly identified and communicated to responsible personnel during reorganizations. We identified a lack of management controls during our audit testing that compared DFAS withholding amounts to personnel records, since the records did not support the amounts withheld.

Adequacy of Management Controls. We identified material management control weaknesses, as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. The Military Department civilian personnel offices needed an improved process to identify withholding errors for civilian payroll deductions. Also, DFAS did not have a standard procedure to clearly identify and communicate responsibilities to personnel during reorganizations. In addition, DFAS did not have software capable of extracting exact details in the electronic payroll data summarized and transmitted to OPM for withholding payments. Recommendations A.1. through A.5., if implemented, will improve Military Department civilian personnel offices documentation support for amounts that DFAS paid and withheld. Recommendations B.1. and B.2. in this report, if implemented, will improve the timeliness of reporting payroll data from DFAS to OPM and the accuracy of database support for the amounts that DFAS summarizes to report to OPM.

Adequacy of Management's Self-Evaluation. Management's self-evaluation did not identify the material weaknesses because management did not identify the areas as assessable units. In addition, DFAS management's letter of assurance did not identify the material management control weaknesses because the prior review of DoD payroll withholding data, performed by a contractor, omitted some of the agreed-upon procedures and therefore did not disclose the weaknesses.

Summary of Prior Coverage

The Inspector General, DoD, and the Air Force Audit Agency have conducted multiple reviews related to civilian payroll information, controls over the payroll process, and payroll expenses. Unrestricted Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil>. Unrestricted Air Force Audit Agency reports can be accessed on the Internet at <http://www.afaa.hq.af.mil>.

Appendix B. Summary of Errors

| | Agency | Net Amount Per Pay Period | Error | Annual Withholding Error |
|----|--------|------------------------------|---|--------------------------------|
| 1 | Army | \$21.05 | Retirement underwithheld, TSP underwithheld, health overwithheld, gross pay underpaid | \$547.30* |
| 2 | Army | 0.17 | FEGLI overwithheld | 4.42 |
| 3 | Army | 11.31 | Health overwithheld | 294.06 |
| 4 | Army | 104.33 | TSP overwithheld | 2,712.58 |
| 5 | Army | 89.65 | Health underwithheld, TSP overwithheld | 2,330.90 |
| 6 | Army | 112.24 | TSP overwithheld | 2,918.24 |
| 7 | Army | 55.27 | Health overwithheld | 1,437.02 |
| 8 | Army | 72.62 | TSP overwithheld | 1,888.12 |
| 9 | Army | | Gross pay, no documentation | * |
| 10 | Army | | Gross pay, Retirement, FEGLI, Health, TSP, missing file | * |
| 11 | Army | 6.01 | Health overwithheld | 156.26 |
| 12 | Army | 8.42 | FEGLI overwithheld | 218.92 |
| 13 | Army | 79.26 | Health, FEGLI overwithheld | 2,060.76 |
| 14 | Navy | 0.32 | Gross pay overpaid, FEGLI overwithheld | -8.32* |
| 15 | Navy | 0.22 | FEGLI overwithheld | 5.72 |
| 16 | Navy | 4.13 | FEGLI overwithheld | 107.38 |
| 17 | Navy | 62.32 | Health overwithheld | 1,620.32 |
| 18 | Navy | 250.46 | Health, TSP overwithheld | 6,511.96 |
| 19 | Navy | 74.32 | TSP overwithheld | 1,932.32 |
| 20 | DECA | -0.66 | FEGLI underwithheld | -17.16 |
| 21 | DECA | 0.33 | FEGLI overwithheld | 8.58 |
| 22 | DLA | | Gross pay, no documentation | * |
| 23 | DLA | -4.50 | FEGLI underwithheld | -117.00 |
| 24 | DIS | -10.02 | Health underwithheld | -260.52 |
| | | \$952.11 | Total Overwithheld | \$24,754.86 |
| | | -\$15.50 | Total Underwithheld | -\$403.00 |

DECA Defense Commissary Agency
 DLA Defense Logistics Agency
 DIS Defense Investigative Service (now Defense Security Service)
 TSP Thrift Savings Plan

* Cannot determine correct gross pay, not documented in personnel file

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Under Secretary of Defense for Personnel and Readiness

Department of the Army

Assistant Secretary of the Army (Financial Management and Comptroller)
Assistant Secretary of the Army (Manpower and Reserve Affairs)
Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Manpower and Reserve Affairs)
Naval Inspector General
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Assistant Secretary of the Air Force (Manpower, Reserve Affairs, Installations and Environment)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Civilian Personnel Management Service
Director, Defense Commissary Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
 National Security and International Affairs Division
 Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
 Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
 Relations, Committee on Government Reform

Department of the Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
MANPOWER AND RESERVE AFFAIRS
111 ARMY PENTAGON
WASHINGTON DC 20310-0111

April 11, 2000

MEMORANDUM FOR DEPARTMENT OF DEFENSE, INSPECTOR GENERAL,
400 ARMY NAVY DRIVE, ARLINGTON, VIRGINIA
22202-2885

SUBJECT: Audit Report on DoD Payroll Withholding Data (Project No.
9FH-2014.01)

Reference your Draft Proposed Audit Report, February 29, 2000, subject as
above.

While the findings in this report have merit, the recommendations as a whole indicate an insufficient understanding or knowledge of the regulations, guidelines, processes, and controls currently in place to ensure the correct processing of personnel actions, personnel record keeping, and payroll interface. We base our conclusions on a thorough review of each record indicated as containing errors. We found the personnel information and record keeping correct with four exceptions. In two records the employees should have re-indicated the amounts to contribute to the Thrift Savings Plan (TSP). One record was not found at the time of the audit and one action was not processed timely. Enclosure one separately addresses each record. We provide the following comments in response to each recommendation.

The first recommendation was to establish controls for DoD personnel offices and regional centers to retain personnel files and documents. We nonconcur with this recommendation as guidelines and controls for the Department of the Army are already in place. The Civilian Personnel Operations Centers (CPOCs) are tasked with maintaining employees' Official Personnel Folders (OPFs) in accordance with the Guide to Personnel Recordkeeping, established by the Office of Personnel Management (OPM). This guide addresses electronic as well as hardcopy OPFs. Additional controls have been established by the Department of the Army and published in the Task Lists, Business Process Maps (BPMs), and in Standard Operating Procedures (SOPs). This information is readily available through the Civilian Personnel On-line (CPOL) Library web page at <http://www.cpol.army.mil/library>.

The second recommendation was to establish procedures for the accurate completion of personnel documents and the prompt transmission of personnel payroll data to the Defense Finance and Accounting Service. We nonconcur with this recommendation and submit that procedures are already in place for processing personnel actions and transmitting data to payroll. Some of the untimely submissions

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cited in this report were beyond the administrative control of the personnel offices (see Enclosure 1). However, quality control reviews are necessary to ensure that employees and managers have accurately completed the forms necessary to effect personnel actions. Procedures for completion of these particular personnel documents are provided in the Federal Employee Health Benefit (FEHB) Handbook for Enrollees and Employing Offices found at (<http://www.opm.gov/hr/insure/handbook/fehb00.htm>) and the Federal Employee Group Life Insurance (FEGLI) Handbook for Employees, Annuitants, Compensationers, and Employing Offices found at (<http://www.opm.gov/hr/insure/life/handbook/>). Both Handbooks are supplemented by OPM Benefit Administration Letters throughout the year. Procedures for processing personnel actions are in the Guide to Processing Personnel Actions, the BPMs, the Task Lists, and in SOPs. The BPM for payroll interface, entitled Payroll Interface Processing Cycle, is listed under Information Systems and viewable at <http://www.cpol.army.mil/library>. In addition, we have outlined procedures for flowing personnel data to the Defense Civilian Payroll System (DCPS) in our Defense Civilian Personnel Data System (DCPDS) Users' Manual and provided two train-the-trainer classes on payroll interface procedures to all 10 regions in the last year. Both the Users' Manual and the Train-the-trainer course are available on our web site at a secure web address.

The third recommendation was to correct the errors in personnel files discussed in this report. We concur with this recommendation. Enclosure one contains our review of errors found in personnel files. A number of errors resulted from not going back far enough in an employee's records to verify correct information or not providing the auditors sufficient documentation to verify current withholdings. In essence, the errors are not the result of poor personnel record keeping or a lack of documentation but an error in providing the necessary documentation to the auditors for them to make a correct determination. Two of the three timeliness errors cited are beyond the control of the personnel and payroll communities. For example, one of the errors cited involving gross pay was the result of the President not signing the Wage Grade pay table until December of 1998 with an effective date of October 11, 1998. As a result of our review, we maintain that only four files contain errors attributable to the personnel community (see Enclosure 1). Two of these errors involve incorrect documentation but the payroll withholding is correct. One error is attributable to our inability to provide requested records due to a missing file, so documentation and withholding may or may not be correct. The fourth error involved an unacceptable delay in processing an action which affected the payroll withholding and the employee's pay.

The fourth recommendation was to establish a system to review and correct civilian employee personnel documents for consistency with payroll deductions. Personnel documents serve as the official documents of record. We must nonconcur

with this recommendation because all payroll deductions must be based on the hardcopy or electronic data that flows from the personnel offices to DCPS. Personnel and payroll data are reconciled three times a year in February, June, and October. Payroll sends a copy of the data that has flowed through DCPS and these records are matched with the data elements in DCPDS. DCPDS does not contain payroll deductions (i.e. taxes, FEHB, TSP, garnishments, FEGLI, etc). Payroll data, in the form of a Personnel/Pay Application Data file, is sent to personnel to be uploaded into Regional Application. Managers and supervisors have access to this application to review their employees' information. To correct data interface problems, the DCPS system has over 300 System Change Requests (SCRs) that are waiting to be implemented. Forty of these SCRs deal specifically with the flow of personnel data. Because of these problems, both personnel and payroll must use work arounds in order to get actions to take in DCPS. Enclosure 2 is a list of the 40 SCRs. Within the last year, DCPS has implemented some SCRs that deal specifically with TSP and FEHB actions. These SCRS are at enclosure 3.

The fifth recommendation was to develop performance measures for assessing the accuracy and support for gross pay and payroll withholding from personnel file records and accounting records. We concur with this recommendation because the systems currently in place to assess the quality of data and to resolve discrepancies in accounting data and payroll interface need focus. We agree that the employees who process personnel and payroll actions need to ensure these actions are timely and correct. These employees may be from the personnel, resource management, finance, or payroll community. Quality reviews are being completed. As an example, the DCPDS does not contain accounting data. The Resource Management offices are responsible for accounting data. Accounting data is provided to the Installation Customer Service Representative, who then inputs the data into DCPS. Gross pay files are generated by DCPS and sent to the different accounting systems on a biweekly basis. These accounting systems generate error reports and provide them to the Resource Management offices to review and correct. In addition to internal audits of personnel data and documentation, personnel record keeping and personnel data entry are reviewed by the Army's Civilian Personnel Evaluation Agency (CPEA). As a part of their overall reviews of personnel administration in the Civilian Personnel Operations Centers, CPEA conducts data quality checks by matching the data contained in DCPDS with the documents in the OPFs to ensure data is accurate and complete. In addition to the processes described in previous paragraphs, an Unmatched Disbursements Working Group is currently in place with representatives from Civilian Personnel, Financial Management, Budget and the Defense Finance and Accounting Service. This group has outlined specific problem areas in the flow of data from the initiation of an action all the way through to the Department of Treasury.

The Department of the Army is currently in the process of automating and moving benefit services from the Civilian Personnel Advisory Centers (CPACs) to the regional Army Benefits Center-Civilian (ABC-C) located at FT Riley, KS. New SOPs, BPMs and task lists are being prepared to guide the processing of FEHB, FEGLI and TSP transactions. The majority of these transactions will be electronic. Employees will independently enroll or change their enrollment using a telephone or computer and the electronic data will automatically flow to Legacy and Modern personnel systems and to DCPS through the payroll interface. These electronic transactions will expedite payroll notification and reduce errors caused by data entry clerks. The transition of workload from CONUS CPACs to the ABC-C will be completed this year. The deployment schedule for OCONUS offices is yet to be determined. A marketing brochure is attached at enclosure 4 for your information. Due to the number of actions occurring each day in the operations centers, the possibility exists that the most current changes or corrections made to an employee's record are available in DCPDS and Regional Applications long before a hard copy is filed. With the advent of the call center, providing hard copies of documents to the auditors will not be cost effective nor will the auditors be able to establish an audit trail if they are unable to review electronic files. We would strongly recommend that the auditors pursue access to the electronic systems currently available when conducting their next audit.

In closing, we have many challenges to meet in resolving personnel and payroll issues and we will work to resolve them. We appreciate the opportunity to provide comments to this draft final report. If you have any further questions or need clarification, please contact Chris Cejka at (703) 325-9977 or cejka@asamra.hoffman.army.mil.



David L. Snyder
Deputy Assistant Secretary
(Civilian Personnel Policy)

Enclosures

Department of the Navy Comment



DEPARTMENT OF THE NAVY
OFFICE OF THE ASSISTANT SECRETARY
(MANPOWER AND RESERVE AFFAIRS)
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

15 APR 2000

MEMORANDUM FOR INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft of a Proposed Audit Report, DoD Payroll
Withholding Data

Thank you for the opportunity to review your draft proposed Audit Report on Department of Defense Payroll Withholding Data (Attachment 1).

As we move toward complete implementation of Human Resources Regionalization and Modernization, we will ensure that our new systems have adequate safeguards to ensure that employees are paid correctly and that official personnel records are consistent with payroll withholding. Our accountability assessment program will include a process for systematic review of this issue.

We have begun the review of the six Department of the Navy cases identified in your audit and will take appropriate corrective action. We appreciate your bringing these cases to our attention, and we look forward to working with you on your follow-up audit. My point of contact for this review is Mr. Arthur Buck, who can be reached at (202) 764-0674 or DSN 764-0674.


BETTY S. WELCH

Deputy Assistant Secretary of
the Navy (Civilian Personnel/
Equal Employment Opportunity)

Attachment: As stated



DEPARTMENT OF DEFENSE
CIVILIAN PERSONNEL MANAGEMENT SERVICE
1400 KEY BOULEVARD
ARLINGTON, VA 22209-5144

MAR 23 2000

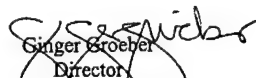
MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: Audit Report on DoD Payroll Withholding Data (Project No. 9FH-2014.01)

This office has completed a review of the subject draft audit report. Because the issues raised in the report concern matters under the purview of the Military Departments and Defense agencies, we are unable to respond directly to the report findings and recommendations. Nevertheless, as the program management office for regionalization and modernization, we would be remiss if we did not clarify the operating environment in the regional service centers (RSC). Specifically, while some errors were identified in pay and benefit processing by your audit, these errors are not indicative of a lack of performance measures. Indeed, each Defense Component that operates a RSC has developed and implemented specific operating measures. RSC operations are currently managed and evaluated in accordance with these measures; and we work cooperatively with the Components to continue to focus and refine them.

Defense Management Review Decision (DMRD) 974 identified significant efficiencies that could be attained through restructuring Human Resources support activities, including personnel management evaluation (PME). The DMRD suggested that PME methods could be improved through the use of a single, DoD-wide methodology focused on outcomes and reliance on data produced by the single civilian personnel data system, now known as the modern Defense Civilian Personnel Data System (DCPDS). The Department of the Navy was directed to lead a working group to develop a new methodology by the end of Fiscal Year 1993. The working group consisted of representatives from the Military Departments, the Defense Logistics Agency, National Guard Bureau, and Washington Headquarters Services. Ultimately, the working group recommended that the Components maintain separate PME programs within a departmental policy framework. As a result, the PME function has remained in the Components and has not been consolidated within the Civilian Personnel Management Service (CPMS). Therefore, it would be inappropriate for this office to comment further on the subject report.

Should you require further information with respect to our comments, please contact our action officer, F. Michael Sena, at (703) 696-1215.


Ginger Broeber
Director

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

1501 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5281
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APR 12 2000

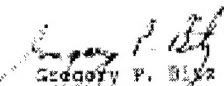


DFAS-HQ/FMP

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE (DoD)

SUBJECT: Draft Audit Report on Department of Defense
Payroll Withholding Data (Project No. 9FH-2014.01)

We have reviewed the draft audit report and our comments are
at the attachment. If you have any questions concerning this
memorandum, my point of contact is Ms. Cherce Emory. She can be
reached on (703) 687-5622.


Gregory P. Bliz
Director for Finance

Attachment:
As stated

Defense Finance and Accounting Service Comments

Response to Draft DoDIG Audit Report on DoD Payroll Withholding Data Project No. 9FH-2014.01

General Comments:

- Introduction, fourth sentence, should be revised to read "DoD had 3 agency payroll offices with 12 payroll databases, 8 of which were responsible..."
- The draft report refers to errors in "gross pay" or payroll withholding. We believe these references should be changed to read errors in the "rates of pay". As referenced, an error in "gross pay" connotes an error in the way the payroll system has calculated the pay for employees, when actually the calculation is proper based on the authorized pay at the time. The "rate of pay" clearly identifies an error related to the receipt or non-receipt of a personnel action authorizing a change in pay.
- Page ii, the second bullet, first sentence, should read, "...did not correctly develop software capable of extracting data..."
- In the Summary of Recommendations, the last sentence should read "...correctly develop software capable of extracting data..."
- Page 5, the fourth sentence states that there were errors in payroll reports, but provides no explanation or support of the type of error found. This should either be deleted or explained in greater detail.

Recommendation B.1: The Director, DFAS to develop software capable of extracting details in electronic payroll data summarized and transmitted to OPM for withholding payments.

DFAS Response. Concur. Similar audits were previously performed by the Office of Personnel Management, with the FY 99 audit being the first performed by the DoDIG. The extract programs were developed in conjunction with the DoDIG and we agree that a further refinement is necessary. We will work closely with the DoDIG to assure those requirements are defined and in place for future audits.

Estimated Completion Date: June 30, 2000

Recommendation B.2: The Director, DFAS, develop and implement standard procedures to clearly identify and communicate responsibilities to personnel for transferred responsibilities.

DFAS Response. Concur. DFAS-CL developed and implemented standard procedures that clearly identify and communicate responsibilities for processing Retirement and Insurance Transfer System (RITS) files.

Implementation Date: August 17, 1999. Completed.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

F. Jay Lane
Salvatore D. Guli
David F. Vincent
Thomas J. Winter
Joseph A. Powell
Jonathan M. Rabben
Alberto T. Rodriguez
Lee Clinard
Leon Bryant
Susanne B. Allen

INTERNET DOCUMENT INFORMATION FORM

A . Report Title: DoD Payroll Withholding Data for FY 1999

B. DATE Report Downloaded From the Internet: 07/14/00

C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #): OAIG-AUD (ATTN: AFTS Audit Suggestions)
Inspector General, Department of Defense
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D. Currently Applicable Classification Level: Unclassified

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F. The foregoing information was compiled and provided by:
DTIC-OCA, Initials: __VM__ Preparation Date 07/14/00

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